PENSION RIGHTS CENTER

PROTECTING AND PROMOTING RETIREMENT SECURITY
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STATEMENT OF THE PENSION RIGHTS CENTER

IN SUPPORT OF

S.B. 249
AN ACT PROMOTING RETIREMENT SAVINGS

BEFORE THE
COMMITTEE ON LABOR AND PUBLIC EMPLOYEES
OF THE
CONNECTICUT GENERAL ASSEMBLY

March 11, 2014

Senator Holder-Winfield, Representative Tercyak, Members of the Committee, thank you for this opportunity to testify today on SB 249, An Act Promoting Retirement Savings. My name is Karen Friedman, and I am the Executive Vice President and Policy Director of the Pension Rights Center, a national consumer organization working exclusively to protect and promote the retirement rights of workers, retirees, and their families.

I'm very pleased to be testifying before this committee on the importance of this bill which would authorize Connecticut to use the efficiencies of the state retirement system to administer a new retirement savings plan that would be of particular value to low-income private sector workers who are not covered by an employer-sponsored plan. As many of you may remember from my past statements before this committee, I grew up in West Hartford, my mom, dad and brother still live in this beautiful state, and I'm so pleased to see that my home state is taking the lead on promoting retirement reform.

The reason I came in from Washington, DC for this hearing is to tell you how important this bill is both for the residents of this state as well as for potentially providing a new retirement savings model for the country. As it is, millions of people are facing a bleak retirement. Nationally, half of all private-sector workers have no pensions or retirement savings plan to supplement Social Security – and this has been a stubborn fact for more than a quarter of a century. Too many employers who sponsor pension plans that provide lifetime, guaranteed income are freezing, terminating, and otherwise cutting back those plans and replacing them with less secure 401(k) plans. Thirty years ago, one out of two private-sector workers participated in defined benefit plans. Now that figure is closer to one in five. And 401(k) plans have left most workers with insufficient assets for retirement. According to the Federal Reserve Board's 2012 Survey of Consumer Finances half of all households that have 401(k)-type accounts had less than $45,000 in their accounts. For those approaching retirement, the median account balance was just about $100,000– not nearly enough to last throughout retirement.

And millions of Connecticut's residents also face an insecure retirement. According to the Schwartz Center for Economic Policy Analysis at the New School, in 2010, 50 percent of working age (25-64) Connecticut residents were not covered by an employer-sponsored retirement plan. Between 2000 and 2010, there was also a steep decline in the rate of sponsorship of workers by their employers. The study goes on to show that declining sponsorship of retirement plans paints a bleak picture of the future of retirement income security for workers in Connecticut and it also has immediate implications for the financial preparedness of the State's senior citizens. Poorer Connecticut residents continue to be financially insecure as they enter retirement-age years – those in the lowest quartile of the income distribution receive 82 percent of their income from Social Security and have little to no income from personal retirement plans. Also, retirement security is fragile for middle class Connecticut residents as well – with those in the middle two quartiles of income receiving 54 percent of their income from Social Security.

Similar data has been reported by the National Institute on Retirement Security (NIRS). According to their recent *Financial Security Scorecard: A State-by-State Analysis of Economic Pressures Facing Future Retirees*, the workplace retirement plan participation rate in Connecticut is 50.66 percent, down a full ten percent since 2000. The average account balance per holder ranks in the bottom half of all states at just under $27,000. And the unemployment rate for older workers at 6.4 percent is more than double what the rate was in 2007

Public opinion polls reflect America's mounting anxiety about retirement. According to the National Institute on Retirement Security, 84 percent of Americans are concerned that current economic conditions are impacting their ability to achieve a secure retirement, with more than half (54 percent) of Americans very concerned. A 2013 Gallup poll found that 61 percent of Americans were worried about having enough money for retirement, up by 8 percentage points since 2001. A similarly recent Pew poll shows that almost 40 percent of those they surveyed are not confident they will have enough income and assets for their retirement.

While state and national legislators have been focusing on budget deficits, the Pension Rights Center urges you to address another kind of deficit: the massive and growing Retirement Income Deficit facing the nation. According to the nonpartisan Center for Retirement Research at Boston College, the Retirement Income Deficit facing Americans is an astounding $6.6 trillion. That number represents the gap between what people have saved as of today and what they should have saved to achieve a level of income sufficiency in retirement.

To address this Retirement Income Deficit, the Pension Rights Center joined with a range of other labor, retiree, consumer organizations and progressive think tanks to create Retirement USA, a campaign that has created principles that we believe should underlie new plans and systems that supplement Social Security.

As a starting point, we all believe that any new private system, either nationally or in Connecticut, should build on top of an unreduced Social Security system. Social Security must be maintained and strengthened -- and not cut -- because it is doing an unparalleled job of providing a basic foundation of income for retirees. We hope state legislators weigh in on this debate as well.

As Connecticut studies the feasibility of creating a new system for private sector workers we would urge you to weigh that new system against our principles. The first three are:

(1) Universal Coverage. Every worker should be covered by a retirement plan. A new retirement system that supplements Social Security should include all workers unless they already are in plans that provide equally secure and adequate benefits.

(2) Secure Retirement. Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.

(3) Adequate Income. Everyone should be able to have an adequate retirement income after a lifetime of work. The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

Other principles include:

- **Shared Responsibility.** Retirement should be the shared responsibility of employers, employees, and the government.
- **Required Contributions.** Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower-income workers.
- **Pooled Assets.** Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.
- **Lifetime Payouts.** Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.

The issue of retirement security is not just a topic of concern in Connecticut but in Washington as well. Just recently, President Obama recognized the severity of the retirement income crisis in his State of the Union address. He later created by Executive Order his new *myRA* initiative, a new Treasury bond to promote savings, particularly for low- and moderate-wage earners. The *myRA* is meant as a starter plan, to help lower-income savers put their money into a no-fee, government-backed Treasury bond which earns the same interest as the government securities fund of the Thrift Savings Plan for federal employees. Workers cannot lose the money that they put in, and their money won't be eaten up by fees. The myRAs while a first step, would only allow workers to save up to $15,000, at which point they will be required to roll that money over to accounts in the private market.

The retirement income crisis has also been recognized by members of the U.S. Congress. To address this huge problem, Senator Bill Nelson (D-FL) and Senator Susan Collins (R-ME) have proposed legislation making it easier for small employers to form retirement pools to take advantage of the economies of scale. Also, Senator Tom Harkin, the Chairman of the U.S. Senate Committee on Health, Employment, Labor and Pensions Committee, introduced a new bill called USA Retirement Funds that meet several of the principles discussed above. The Senator's bill would create a new system of privately-run retirement funds that take some of the best parts of traditional pension plans: they are pooled and professionally invested, they lock the money in until retirement, and they pay out a stream of monthly payments that cannot be outlived. Also, investment and life expectancy risks are shared by all participating workers and retirees, improving on 401(k) plans where the risks are borne by each individual.

We think that it will take more time for a national solution and the states can lead the way for comprehensive reform. Connecticut is part of a growing movement exploring how states can play an important role in expanding coverage for private sector workers. California enacted the California Secure Choice Retirement Savings Trust Act, which lays the groundwork for a state-administered retirement savings plan which is based on an Automatic Enrollment IRA but has additional features which meet many of the principles of Retirement USA. For instance, the money, rather than being individually invested would be pooled and professionally invested; the money could be annuitized; and also there is a modest guarantee. The California law requires that a feasibility study be done before the plan is implemented and my understanding is that they are making good progress toward that goal.

Two years ago, Massachusetts also enacted a new law using its retirement system to administer a new defined contribution plan for employees of small non-profit organizations in the

Commonwealth. The retirement plan would be a tax-qualified defined contribution arrangement with various investment options available to employees. Contributions could be made by workers, their employers, or both.

Also, there are a variety of efforts being explored in Oregon, Minnesota, Maryland, Washington state and Colorado, among others, as states are beginning to realize they can use their significant negotiating power and economies of scale to lower the costs of retirement savings for their citizens. Because these plans would operate separately from the state's own retirement system that covers state employees, they can be structured not to add to state budget deficits or add to liabilities of state pension systems.

The proposed legislation in Connecticut, as in California, would create an Automatic IRA that would be administered by an appointed Trust Fund board. The money would be pooled and professionally invested to achieve economies of scale which would result in lower fees for participants. And, unlike most IRAs bought in the private market, the money would be paid out as a lifetime annuity which insures that people will not outlive their assets. Finally, a modest guarantee protects the money saved by hard-working employees.

This is a plan that could help ensure that millions of people have a secure vehicle for retirement which is a boon for families and the economy. When older people have money for retirement they can help struggling children and grandchildren. Also, they continue to buy goods and services in the state – which helps keep the economy moving. They also are less likely to need federal and state supportive services, which ultimately saves the government money.

We understand that some members of the financial industry are opposing this bill and these types of coverage expansion efforts. We believe the declines we have seen across the nation in retirement security over the past decade argue for a new, more innovative approach for those who are not currently saving for their retirement. Connecticut's Act to Promote Retirement Savings represents the vanguard of such thinking.

I'd like to take just a minute to address some of the specific concerns raised by those who oppose SB 249. First, opponents frequently argue that this bill would stifle competition for private vendors. In fact, the bill does just the opposite. The bill provides that the board of governors will be able to contract out a range of investment and administrative functions to private sector vendors. Also, the bill provides for the establishment of an Internet web site to enable employers to choose outside vendors – instead of the state plan (as a note, the Pension Rights Center believes strongly that if a qualified employer does choose an outside vendor, an employee should have the option of opting out and asking the employer to direct his or her contributions to the state plan).

Also, opponents of the bill argue that SB 249, and similar efforts, would be pre-empted by the Employee Retirement Security Act (ERISA), the federal private pension law. In fact, the Connecticut Act Promoting Retirement Security would not be subject to ERISA. The federal law clearly states that in order to be covered by ERISA, a plan must be established or maintained by an employer. Under this bill, the state would be establishing and maintaining the plan, and an employer would have no other duty than automatically directing an employee's contribution into the fund – unless an employee opts out. Employers would have no other administrative or fiduciary duties. Also, IRAs are not governed by ERISA and the Connecticut bill is based on an Automatic IRA structure. Hence, this type of plan would not be pre-empted by ERISA. As a final fail-safe, the retirement savings program contemplated by SB 249 is conditioned on a determination that it is not subject to ERISA. The Pension Rights Center is writing a white paper on the legal issues which pertain to these state-based approaches that we would be happy to share with this committee upon its completion.

But let's get down to more personal reasons of why we support this bill. And that's my mom and dad. My parents, Ed and Fran Friedman, owned the Friedman Floor Covering business on New Britain Avenue (formerly on Prospect Avenue) for more than 60 years (my grandfather Sam Friedman started the first carpet store in Connecticut). My dad, who is now 90 years old, considered himself a small-business owner who always tried to do right by his employees. When I asked him about whether Connecticut should explore setting up a new pension plan that would ease administrative burdens of small businesses, and help expand secure coverage for employees, my dad repeated something he told me last year "Sure I like that idea. If the only thing an employer would have to do is take out money from an employee's paycheck and send it to the new plan? That's easy, who would object to that!"

My dad was a great businessman and he's still one of the smartest guys I know. And I think we all should listen to him. Setting up a state-administered retirement savings plan makes sense to businesses and employees of the state – and will also position Connecticut to be among the leaders in the nation in reform.

Thank you for giving me this opportunity to testify. It is always an honor to be back in my home state of Connecticut and to testify before this distinguished committee.